

Financing real estate in a self-directed IRA or Solo 401(k)

How non-recourse loans work when a retirement account owns the property, and the rules that keep the account's tax status intact.

The account is the buyer. It owns the property and pays every cost. All rent goes back to it.	No personal guarantee. The loan must be non-recourse. The lender looks only to the property.
Hands off. No personal use, no work on the property by you, and no deals with disqualified persons.	Debt can be taxed. In an IRA, the debt-financed share of income can owe UBIT. A Solo 401(k) is generally exempt for real estate.

1. How it works

In a self-directed IRA or Solo 401(k), you choose the investment, but the retirement account, not you, buys and owns the property. Every dollar in and out moves through the account.

- **Title.** For an IRA, title vests in the custodian for the benefit of your IRA (for example, "XYZ Trust Company, Custodian FBO Jane Smith IRA"), or in an LLC owned by the IRA. For a Solo 401(k), title vests in the name of the plan's trust, and you usually sign as its trustee.
- **Money in.** The down payment, closing costs, reserves, repairs, property taxes, insurance, management fees and loan payments all come from the account.
- **Money out.** All rent and any sale proceeds go straight back into the account, never through your personal bank account.
- **No personal top-ups.** You cannot pay a property bill with personal funds. New money can go in only as an allowed contribution, rollover or transfer, so keep enough cash in the account to carry the property through vacancies and repairs.

2. Why the loan must be non-recourse

IRC 4975 prohibits any direct or indirect lending of money or other extension of credit between a retirement plan and a disqualified person, and you are a disqualified person for your own account. A personal guarantee from you, full or partial, is an extension of credit to the plan, so it is a prohibited transaction. The U.S. Tax Court applied this rule in *Peek v. Commissioner* (2013), where IRA owners had guaranteed a loan to a company their IRAs owned.

That is why the loan must be non-recourse: if it goes unpaid, the lender's only remedy is the property. It cannot pursue you. What that usually means:

Lower loan-to-value	Loans often run around 50 to 65 percent of value, so the account funds a larger down payment.
Higher reserves	Lenders commonly want several months of payments left in the account after closing.

Higher rate and fees	Pricing usually runs above conventional investor loans, because the property is the lender's only source of repayment.
Sized on the property	The loan is sized on the property's rent and value, often with a debt service coverage test, not on your personal income.

These are typical ranges, not fixed terms. Each lender sets its own.

3. Prohibited transactions and disqualified persons

The account has to deal at arm's length. A sale, lease, loan, service or other benefit between the account and a disqualified person is a prohibited transaction, whether it happens directly or indirectly.

Who counts as a disqualified person

- You, as the owner and the person directing the account
- Your spouse
- Your parents, grandparents and other ancestors
- Your children, grandchildren and other descendants, and their spouses
- Companies, partnerships and trusts that you or other disqualified persons own 50 percent or more of, plus certain of their officers, directors and 10 percent owners
- Fiduciaries of the account and anyone providing services to it

Siblings, aunts, uncles, cousins and friends are not on the list, but a deal with them can still be a problem if it benefits you indirectly.

What you cannot do

- Live in, stay at or vacation at the property, even briefly
- Rent it to yourself or any disqualified person, or use it as your office
- Do repairs, rehab or other hands-on work yourself. Hire unrelated contractors and pay them from the account
- Buy the property from, or sell it to, yourself or a disqualified person
- Personally guarantee the loan, or lend the account your own money
- Pay its bills personally, or deposit its rent in your own account

If it happens. For an IRA, a prohibited transaction generally ends the IRA as of the first day of that year, and the whole account is treated as distributed to you at fair market value, which can bring income tax and, if you are under 59½, a 10 percent additional tax. For a Solo 401(k), the disqualified person generally owes an excise tax of 15 percent of the amount involved, rising to 100 percent if it is not corrected.

4. Taxes on debt-financed property

IRA. Rent and gains inside an IRA are normally tax-deferred, or tax-free in a Roth. A loan changes that. Under IRC 514, income and gain attributable to the debt-financed portion of the property can be unrelated debt-financed income (UDFI), which is subject to unrelated business income tax (UBIT). The taxable share follows the ratio of average debt to average adjusted basis: a \$400,000 property bought with a \$240,000 loan starts near 60 percent, and the share falls as the loan is paid down. The same share of the property's expenses and depreciation can be deducted. For a sale, the share is based on the highest loan balance in the 12 months before the sale. This applies to traditional and Roth IRAs alike.

Filing. When gross income from unrelated business, including UDFI, is \$1,000 or more for the year, Form 990-T must be filed for the IRA under its own EIN. The custodian, acting as trustee, is responsible for the filing, and many custodians ask your CPA to prepare it. The tax is paid from the IRA, and trust tax rates apply.

Solo 401(k). A Solo 401(k) is a qualified plan, and IRC 514(c)(9) generally exempts a qualified plan's debt on real property from UDFI when its conditions are met. Among them: a fixed purchase price, loan terms not tied to the property's income, no lease back to the seller or a related person, no purchase from or lease to a disqualified person, no financing from any of those parties, and extra rules if the property is held through a partnership.

Either account. Income from running an active business, such as buying and reselling properties as a dealer, can be taxable in either account, with or without a loan.

This is a summary, not a tax opinion. Confirm the numbers and filing duties with a CPA before the account buys.

5. IRA versus Solo 401(k) at a glance

	Self-directed IRA	Solo 401(k)
Who can open one	Anyone with IRA money to invest, from contributions, rollovers or transfers. The custodian must allow real estate.	A self-employed person or business owner with no employees other than a spouse.
Tax on debt-financed income (UDFI)	The debt-financed share of income and gain can owe UBIT. Form 990-T when gross UBTI is \$1,000 or more.	Generally exempt for real estate under IRC 514(c)(9) when its conditions are met.
Who holds title	The custodian for the benefit of your IRA, or an LLC owned by the IRA.	The plan's trust, with you usually signing as trustee.
Custodian involvement	Required. The custodian holds the asset and reviews and signs deal documents. With an IRA-owned LLC, you manage the LLC and the custodian holds the LLC interest.	Often none. You usually act as trustee and sign for the plan. A plan provider supplies the plan documents.
Loan type	Non-recourse only.	Non-recourse only.
Yearly reporting	The custodian reports the account's fair market value each year, so the property needs a yearly value.	Form 5500-EZ once plan assets reach \$250,000 at year end.

6. What Alura does, and does not do

What Alura does

- Arranges non-recourse purchase and refinance loans for property owned by a self-directed IRA or Solo 401(k)
- Coordinates with your custodian or plan trustee on documents, signatures and funding
- Sizes the loan on the property's income and value, not your personal income

What Alura does not do

- Give tax, legal, or investment advice
- Act as your custodian, trustee or plan administrator
- Decide whether a deal meets the prohibited transaction or UBIT rules. That call belongs to your CPA, attorney and custodian

7. Next step

Before the account signs a purchase contract

- Confirm your custodian allows real estate and non-recourse debt, and ask how long it takes to review, sign and fund.
- Keep the down payment, closing costs and reserves in the account, not in a personal account.
- Write the purchase contract in the account's name (the custodian FBO your IRA, the IRA-owned LLC, or the Solo 401(k) trust), not your own.
- Line up an unrelated property manager and contractors, paid by the account.
- For an IRA buying with a loan, ask your CPA about UDFI and Form 990-T before closing.

Run your scenario by us: (813) 356-9448, info@aluracapital.com, aluracapital.com.

Helpful to have ready: the account type and custodian, cash available in the account for the down payment and reserves, the property address and price, current or expected rent, and whether the account will hold title directly or through an LLC.

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Rules summarized as of 2026. Confirm your situation with your CPA, attorney, and custodian.

Sources: IRS, Retirement topics - Prohibited transactions; IRS Publication 590-B (2025), Distributions from Individual Retirement Arrangements (IRAs); IRS, Instructions for Form 990-T (2025); IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations; IRS, Unrelated business income tax; IRS, One-participant 401(k) plans; Internal Revenue Code sections 4975 and 514; *Peek v. Commissioner*, 140 T.C. 216 (2013).